

Message Text

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13

ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 NEA-10 IO-13 H-02 L-03 PRS-01

AID-05 CIAE-00 COME-00 EB-07 FRB-03 INR-07 NSAE-00

USIA-06 XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01

OMB-01 NSC-05 SS-15 STR-04 CEA-01 PA-01 /105 W

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R 170348Z MAY 76

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 5065

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USADB

FOR NAC AGENCIES

PASS TREASURY BUSHNELL/ZINMAN

E.O. 11652: ADS, DECLAS 11/17/76

TAGS: EIAD, AFIN

SUBJECT: ADB LENDING RATE INCREASE

REF: A) MANILA 6408 B) TREASURY 76-54

SUMMARY: ADB PRESIDENT RECOMMENDS IMMEDIATE INCREASE OF ORDINARY CAPITAL LENDING RATE BY 35 BASIS POINTS FROM 8.75 TO 9.10 PERCENT AS INTERIM MEASURE PENDING DETAILED REVIEW IN JULY OF FORMULA FOR DETERMINATION OF INTEREST RATE. USADB INTENDS TO SUPPORT RECOMMENDATION.

1. ADB DOCUMENT R51-76, INCREASE IN THE BANK'S LENDING RATE, DATED 14 MAY BEING POUCHED MAY 17 AND IS SCHEDULED FOR CONSIDERATION BY ADB BOARD OF DIRECTORS 8 JUNE 1976.

2. ADB PRESIDENT POINTS OUT THAT INCREASE OF WORLD BANK
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LENDING RATE BY 35 BASIS POINTS TO 8.85 PERCENT EFFECTIVE

1 JUNE WILL BE HIGHER THAN ADB RATE OF 8.75 PERCENT. SINCE ADB HIGHER BORROWING COSTS HAVE TRADITIONALLY BEEN REFLECTED IN LENDING RATE DIFFERENTIAL OF 0.25 PERCENTAGE POINT, ADB PRESIDENT PROPOSES AS INTERIM MEASURE TO INCREASE ADB LENDING RATE BY 35 BASIS POINTS TO 9.10 PERCENT. ADB PRESIDENT ALSO EXPLAINS THAT COST OF BORROWINGS WITH AVERAGE LIFE CLOSE TO AVERAGE LIFE OF BANK'S LOANS, ABOUT 12 YEARS, COULD BE ABOUT 9.10 PERCENT.

3. IN MEANTIME, ADB STAFF HAS INDICATED DETAILED REVIEW OF ADB LENDING RATE POLICY, PARTICULARLY EXAMINATION OF WORLD BANK FORMULA TO DETERMINE QUARTERLY LENDING RATE BEGINNING 1 JULY. ADB PRESIDENT PLANS TO PRESENT TO BOARD OF DIRECTORS REVIEW AND RECOMMENDATIONS ON LENDING RATE POLICY AS SOON AS POSSIBLE AFTER 1 JULY RATE AND FORMULA FIXATION BY WORLD BANK.

4. ADB PRESIDENT PLANS TO DEFER CONSIDERATION OF ADDITIONAL LENDING RATE CHARGE OF 0.75 PERCENT ON LOANS TO DEVELOPING MEMBER COUNTRIES WITH ANNUAL PER CAPITAL INCOME EXCEEDING US \$850 IN 1972 TO JULY REVIEW SUGGESTED IN PREVIOUS PARAGRAPH SINCE THERE ARE NO LOANS CURRENTLY SCHEDULED FOR BOARD APPROVAL DURING THIS INTERIM PERIOD.

5. CONSIDERING REFTEL B SUPPORT OF INTERIM INCREASE OF LENDING RATE AND COMMENTS CONCERNING ADAPTATION OF INTEREST RATE FORMULA, USADB INTENDS TO SUPPORT ADB PRESIDENT RECOMMENDATION FOR IMMEDIATE INCREASE IN LENDING RATE TO 9.10 PERCENT. BECAUSE OF ADB RESPONSIVENESS TO US INITIATIVES ON CHANGES IN INTEREST RATE POLICY, USADB PREFERS TO DEFER FORMAL COMMENTS ON PREMIUM LENDING RATE AT THIS TIME UNTIL JULY REVIEW.

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Disposition Remarks:
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